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COUNTRY Brazil

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SUBJECT Manganese Ore Negotiations Between Brazilian Government  
and US Steel Corporation

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1. "For over thirty years, United States Steel has had a Brazilian subsidiary Companhia Meridional de Mineracao which has been engaged in extracting manganese ores from properties owned by it in the municipality of Lafaiete in the State of Minas Gerais and selling them to United States Steel. These purchases from the Brazilian subsidiary, (hereinafter referred to as "Merid"), have accounted for an average of roughly one-third of the Steel Corporation's requirements of manganese ore over the years.
2. "During the last four or five years, there has been some agitation in the Brazilian press and some expressions on the part of Brazilian government officials advocating the curtailment of Merid's operations at Lafaiete in order to conserve the manganese ore at Lafaiete for use of the Brazilian national steel industry. In conversations with Brazilian officials, it has been agreed that Merid's operations at Lafaiete would be curtailed as soon as and to the extent that substitute ore became available from Urucum.
3. "The Urucum deposit referred to in the previous paragraph is a deposit located in the so-called Urucum area in the municipality of Corumba in the State of Mato Grosso. Corumba is located on the Paraguay River close to the Bolivian border and is about 1800 miles by way of the Paraguay and Parana Rivers from Montevideo.
4. "Under the laws of Brazil, all mineral deposits belong to the Federal Government unless and until conveyed to others by act of the Federal Government. Rights to the Urucum deposits were conveyed to the Government of the State of Mato Grosso by Federal Decrees 11221 through 11224 under date of January 4, 1943. The State of Mato Grosso in turn granted a private company, Sociedade Brasileira de Mineracao, Limitada, under date of May 13, 1948, exclusive rights to buy and sell ore from the four Federal Decrees until May 13, 1954 and accorded the company thereafter a right of first refusal.

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4. (cont'd)

The agreement between Sociedade Brasileira de Mineracao, Limitada, (hereinafter called "Sobramil"), and the State of Mato Grosso provides that Sobramil shall be accorded a period of eight years from May 13, 1951 to extract each 400,000 tons of ore which Sobramil has purchased or sold in the ground. It also provides that Sobramil will pay to the State of Mato Grosso on account for each purchase or sale 10 cruzeiros per ton. Of these cruzeiros, 2 cruzeiros is payable in advance at the time the ore is purchased in the ground and the balance is payable upon extraction.

5. "On December 15, 1948, Merid obtained an option from Sobramil to purchase ore in the ground. Merid exercised this option on several occasions to purchase a total of 5,000,000 tons of ore in the ground. The option has now expired. In accordance with the terms of the option, Merid paid Sobramil 10 million cruzeiros for forwarding to the state of Mato Grosso and the state of Mato Grosso issued receipts acknowledging payment of the 10 million cruzeiros as the 20% advance due on account of the purchases of 5,000,000 tons by Merid. Further, in accordance with the terms of the option, Merid paid Sobramil for Sobramil's own account, 2 cruzeiros per ton or 4 million cruzeiros for the first 2,000,000 tons purchased and 4 cruzeiros per ton or 12 million cruzeiros for the last 3,000,000 tons purchased. Sobramil accorded Merid a period of 20 years from May 13, 1951 to extract the first 2,000,000 tons so purchased and a period of 40 years starting with the same date in which to extract the remaining 3,000,000 tons. The option agreement provided that upon exercise of the option, Merid and Sobramil should enter into a formal purchase and sale agreement which would contain certain specific clauses recited in the option agreement. Included in these specific clauses is a clause to the effect that Sobramil will assure to Merid conditions which will permit Merid to perform peacefully the technical, economic, commercial and financial duties and responsibilities necessary in connection with the extraction, transportation, storage and shipment of the manganese ore.
6. "It was the intention of the parties that at the time the formal purchase and sale contract was signed, the parties would agree upon and specify the exact area within the Federal Decree where Merid's ore was located and that appropriate arrangements should be made for Merid either to mine the ore itself or to contract with others to have it mined.
7. "Urucum deposits are located in the so-called border tract (an area 50 miles wide extending around the perimeter of Brazil). Brazilian law requires that only companies which are predominantly owned and managed by Brazilians may operate in the border tract unless a specific authorization from the Security Council has been obtained for a company, not predominantly Brazilian, to operate there.

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8. "Immediately upon exercise of the option for the purchase of the first 2,000,000 tons, Merid applied to the Security Council for permission to operate in the border tract. There was reason to believe that this request would be granted as Mr. Fairless had visited Brazil and in talks with various Brazilian government officials had been assured that there should be no difficulty in this regard. The request was, however, denied. Subsequent to the rejection of this petition, Sobramil filed a petition with the Brazilian government requesting permission to hire Merid as a contractor to extract ore from Urucum for Sobramil. No action was taken on this petition until August of 1951 at a time when the question had become moot. The action taken on the petition was not in accordance with the nature of the petition and was obviously inspired by a later filed petition. This action is described more fully later on in this report.
9. "At the time the option was exercised, it was agreed that the signing of a formal purchase and sale contract as called for by the option agreement should be postponed pending the outcome of the petition for permission to operate in the border tract. Signing of formal purchase and sale contracts covering the purchases under the options was further postponed at Sobramil's request as Sobramil was contemplating a sale of ore to the United States Government and wished to take Merid into partnership in order to facilitate performance under the contemplated government contract. It was Sobramil's feeling that the contemplated partnership agreement would supplant the need for a purchase and sale agreement.
10. "Merid acquiesced in the request for further delay in the execution of a purchase and sale agreement and to date no formal purchase and sale agreement has as yet been signed although at the time the last 3,000,000 tons were purchased, it was formally agreed that a purchase and sale contract covering the full 5,000,000 tons would be signed if we did not participate in the Sobramil partnership.
11. "When the United States became cut off from manganese shipments from Russia, Sobramil became interested in making sales of manganese ore from Urucum to the United States Government for stock pile. Accordingly, Dr. Jorge Chamma, the Managing Director of Sobramil, approached the Eximbank with a request for a loan sufficient to develop the properties and make deliveries to stock pile. The officials of the Eximbank stated that they would entertain such a proposal only if Sobramil were successful in associating itself with a well established American concern which had had experience in mining operations of this kind. As Dr. Chamma had indicated that United States Steel Co. was already a purchaser, the Eximbank suggested that Dr. Chamma should approach us.

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11. (cont'd)

Accordingly, Dr. Chamma proposed to US Steel that a partnership should be formed between Sobramil and Merid and that this partnership should then enter into a contract with the United States Government to supply ore for stock pile. After extensive negotiation it was agreed that Merid would purchase a 49% interest in Sobramil, if Sobramil succeeded in obtaining a purchase order from the US Government for at least 2,000,000 tons of ore and was able to arrange the necessary financing for the equipment, which would be required to produce this tonnage and deliver it at South American Atlantic ports. A third condition precedent to the purchase by Merid of such interest in the partnership was that Merid should obtain a legal opinion from its Brazilian Counsel to the effect that Sobramil was in full possession of valid legal title to all of the rights necessary to carry out the contemplated agreements both with the US Government and with Merid. It was agreed that there was no obligation on the part of either Merid or Sobramil to enter into the agreed partnership unless the three specified conditions precedent were all fulfilled prior to July 31, 1951. This date was successively extended until December 31, 1952 at which time no further extension was provided.

12. "The partnership agreement which was to have been entered into would have provided that the capital of the partnership should be increased from 10 million cruzeiros to 100 million cruzeiros. This increase in capital was to be accomplished by Merid paying in 49 million cruzeiros and Sobramil paying in an additional 41 million cruzeiros. Merid was to acquire a 49% interest in the partnership and Sobramil a 51% interest. Sales of ore to Merid by the partnership were to be made at cost plus 10%. A "Technical Director" was to be appointed by Merid and his advice on all matters relating to the technical aspects of the mining operation was to be taken by the Managing Director who was to be Dr. Jorge Chamma. For 20 years, disposition or acquisition of capital assets was to be made only by two-third's vote of the shareholders unless prior to the end of 20 years the Eximbank should have been paid off and Merid should have recovered all sums advanced by it.

13. "After the agreement outlined above was negotiated, Dr. Chamma negotiated an agreement with the US Government for the purchase over a period of 10 years of a total of 3,000,000 tons of manganese ore from Urucum. Concurrently, he negotiated an agreement with the Eximbank allowing Sobramil a credit of up to 30 million dollars for purchase and installation of such mining and transportation equipment as might be necessary in order to fulfill the government purchase order. This agreement provided that repayment of the loan should be made by withholding in the United States and crediting to Eximbank 40% of the dollar payments made by the General Services Administration for the ore purchased until the loan was repaid.

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14. "These agreements with the General Services Administration and the Eximbank, respectively, were never executed. The Eximbank agreement was in a form which would have been acceptable to both parties but the General Services Administration Agreement would have required some further negotiation before it would have been acceptable to Sobramil. Further negotiation was interrupted when the Eximbank stated that it believed a clearance of the agreement through diplomatic channels was required before the Bank could sign the agreement. In April of 1951, Eximbank through the State Department requested Brazilian Government approval for purchase of ore by the Government from a partnership in which Merid would have a 49% interest and approval of the execution of the proposed loan agreement. This request for clearance by the Eximbank was debated at great length by various agencies of the Brazilian Government. As far as we are able to determine the request took the following erratic course through the channels of the Brazilian Government:

- A. "The United States Ambassador, Mr. Johnson, submitted the consultation to the Brazilian Foreign Minister.
- B. "The Foreign Minister forwarded it to President Vargas.
- C. "President Vargas distributed it to various agencies that he thought were involved for a statement of their opinion. These agencies included the Committee on the Border Tract of the Security Council, the Department of Agriculture which did have responsibility for the Department of Mines and the Foreign Office.
- D. "At about the time that the Eximbank consultation was received by the Brazilian Federal Government, a new Governor took office in the state of Mato Grosso. The new Governor, upon becoming apprised of the agreement between the state and Sobramil, felt that this agreement did not accord the state a large enough return for manganese ore exported from the state. He made this known to President Vargas who, not yet having received the Eximbank's consultation, informed the Governor that this was entirely the Governor's own business and he should handle it as he saw fit. Whereupon, the Governor undertook to inform Sobramil that the agreements would have to be revised to provide for larger payments to the state. The question of whether this would affect previous purchases was not at that time decided.
- E. "The National Security Council, apparently prompted by the Eximbank consultation, recommended to President Vargas under date of June 13, 1951, that certain actions be taken with regard to the Urucum deposits. These recommendations, which were put forward in the

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E. (cont'd)

guise of a response to the request of Sobramil which was mentioned earlier in this report and which requested permission for Sobramil to hire Merid as a contractor to extract ore from Urucum, were as follows:

- (1) "Decree the lapsing of Decrees 11221 through 11224.
- (2) "Appoint a committee to investigate and evaluate the Urucum mines.
- (3) "Draw up a plan for working of the mines either by the Government or by a private party under contract to the Government.

"Attached to these recommendations was an opinion of the Attorney General of the Brazilian Federal Government designated Opinion No. 2221 of date November 4, 1949, which purported to demonstrate that the Decrees were faulty at law.

F. "On August 30, 1951, President Vargas approved these recommendations of the Security Council by merely noting on the face thereof, "Decision: Approved".

G. "This decision of the President was apparently completely unknown to the Governor of Mato Grosso until it became public. Obviously, it was completely at variance with the earlier information which President Vargas had given the Governor that the matter of the Urucum deposits was a matter of no concern to the Federal Government and was entirely a matter to be disposed of by the Governor.

H. "On November 27, 1951, in Report G.M. 2221, the Minister of Agriculture refuted the confiscatory recommendations of the Security Council and recommended that the Eximbank proposal be approved after an inter-agency committee should have advanced plans for:

- (1) "Participation of the Brazilian Government in the profits and administration.
- (2) "A larger share of the profits for the State of Mato Grosso from the Sobramil operation and a larger share of the profits for the Federal territory of Amapa from the Icomi operation.
- (3) "Continued participation of the present private companies.

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- (4) "Preference for exportation of manganese located in the periphery of the country.
- (5) "Guarantee of North America's needs if the 30 million dollar loan is made and if operations at Lafiete are suspended in one year.
- (6) "No interruption of the Urucum or Amapa operations.
- I. "Apparently no action was taken on G.M. 2221 by President Vargas other than to forward it along with the rest of the file on the Urucum problem to the Security Council with a request that the Security Council give the matter further consideration.
- J. "After one month without any action by the Security Council, President Vargas put the matter in the hands of the Foreign Minister. It is not clear what further responsibility, if any, was left with the Security Council.
- K. "The Foreign Minister formed a committee of which he became the president and which included the Ministers of Finance, of Agriculture and of Transport and the President of the Border Tract Committee of the Security Council. It was the duty of this Committee to make conclusive recommendations.
- L. "The Ministerial Committee immediately formed a Sub-committee to make proposals to the full committee. This Committee was composed of Minister Barbosa da Silva of the Ministry of Foreign Affairs as Chairman and as members, Glycon de Paiva Teixeira of Transport and Public Works Ministry, Silva Maia of the Border Line Tract Commission and Irnack do Amaral of the Ministry of Agriculture.
- M. "While this Sub-committee endeavored to agree on a course of action, a representative who had just been appointed to the Border Tract Committee made the claim that the action of President Vargas on June 13, 1951, had already cancelled the State's rights so that the State ~~was~~ no longer in possession of the deposits.
- N. " Apparently, feeling the need for affirmative action before the State could be reinstated in its rights, the Border Tract Committee submitted two reports to President Vargas urging positive action to this effect. These reports were Nos. 205/52A of May 19, 1952, and No. 268 of May 25, 1952. Nothing is known of the details of these reports as they have not been made available.

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- O. "Apparently the President took no official action in regard to reports 205 and 268 other than to refer them to the General Counsel of the Republic for a legal opinion.
- P. "The legal opinion rendered by the General Counsel has never been made available. Apparently, however, it concluded that affirmative action to reinstate the State's rights was either unnecessary or undesirable. The General Counsel's report apparently also made a recommendation that a company partially owned by the Federal Government and partially owned by private Brazilian interests should be set up to administer the deposits.
- Q. "No information is available as to what disposition was made of the legal opinion of the General Counsel.
- R. "Apparently motivated by the opinion of the General Counsel, the National Security Council submitted a third report to the President dated June 24, 1952 and designated as E. M. 342. Nothing is known of the contents of this report.
- S. "On July 3, 1952, President Vargas disposed of E. M. 342 by writing on its face:

"To the Ministry of Agriculture, so that it may give an opinion and propose a rapid final solution of the matter, obedient to the principle of the predominant participation of the Federal Union in the administration and the profits of the undertaking."

"It is to be noted that, by this action, the President is apparently vesting in the Minister of Agriculture the authority which he had vested in the Foreign Minister and the Inter-Ministerial Committee without at the same time revoking the authority which he had given to the Foreign Minister.

- T. "Apparently, because the President addressed his note of July 3, 1952, to the Minister of Agriculture, the Inter-Ministerial Committee's report was stated to be issued in compliance with the President's July 3, 1952 note and it was submitted to the President by the Minister of Agriculture rather than by the Foreign Minister who, as Chairman of the Committee, would normally submit the report to the President.

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U. "The report of the Inter-Ministerial Committee which was submitted to President Vargas by the Minister of Agriculture on July 22, 1952, is designated as Report G.M. 1761. The body of this report consists of a review of the history of the deliberations of the Urucum problem by the various government agencies, an exposition of two possible solutions recommended by the sub-committee and a statement that the Inter-Ministerial Committee recommends the choice of the first alternative of the sub-committee over its second alternative.

"The second alternative of the sub-committee was the exploitation of the Urucum deposits by a mixed company comprised of the Federal Government, the State Government, Sobramil and Meridional. The report expresses approval of the plan for a mixed company but takes the position that it would be feasible only if the Lafaiete and Amapa deposits were treated in a similar manner. Appended to the report are three annexes implementing alternative 1. These annexes are as follows:

- (1) "Annex 1 outlines the general steps which should be taken to permit exploitation of the Urucum deposits by Sobramil.
- (2) "Annex 2 outlines the terms of a new contract to be entered into between Sobramil and the State pending the consummation of arrangements with Merid, Eximbank and G. S. A.
- (3) "Annex 3 outlines the terms of an agreement to supersede the agreement described in Annex 2 at such time as the arrangements between Sobramil and Meridional, Eximbank and G. S. A. have been consummated.

V. "On August 30, 1952, President Vargas acted upon Report No. G.M. 1761 of July 22, 1952 by writing thereon:

"I approve the proposal contained in Paragraph Thirty-five of the Report of the Ministry of Agriculture, which should proceed to the preparation of new contracts based on the suggestions contained in the first formula prepared by the Sub-Commission of Technical Experts named by the Commission comprised of the Ministers of Foreign Affairs, Finance, Agriculture, Transport and Public Works, and the President of the Special Commission on Border Lines."

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"'In addition to the usual control foreseen in the Mines Code and that which will be exercised by the Government of the State of Mato Grosso, there must be established a form of control by the Federal Government for the operations of the enterprise with which the holder of the mining rights will contract for the utilization of the deposit, in order to assure the accuracy of its financial statements and the faithful execution of the clauses of the contracts between the enterprise, the Government of the State of Mato Grosso, and the other parties interested in the exploration and trade of Urucum ore.'

- W. "The approval by President Vargas of the proposal set forth in paragraph 35 of the report appears to constitute an endorsement of the provisions of Report G.M. 2221 referred to above, of Report 268 referred to above and of Report 342 also referred to above for the referenced paragraph 35 reads in part as follows:

"'Besides this, this Ministry finds itself in accord with the point of view propounded in Report G. M. 2221 of 27 November 1951, and as well, already in agreement with the Report 342 and 268 of 24 June and 22 May last of the Secretary-General of the National Security Council;'. "

"From the foregoing outline, it can be seen that a full evaluation of the effect of the Brazilian Government's actions cannot be made without reference to the legal opinion referred to above and reports 268 and 342 also referred to above. Summarizing the effects of the Brazilian Government's actions based on the incomplete documentation available, the high points would seem to be the following:

- (1) "The Federal Government recognizes no present right in Meridional to mine or have mined the 5,000,000 tons of ore in the ground which it has already purchased.
- (2) "The Federal Government will allow the State of Mato Grosso to give Sobramil a mining lease permitting the shipment of ore from Urucum provided:
  - (a) "Meridional is cut in on a substantial share of Sobramil's capital participation.
  - (b) "Meridional agrees concurrently to cease the export of ore from Lafaiete.
  - (c) "Sobramil renounces all its rights and rights of its successors arising out of its former agreements with the State.

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- (d) "Sobramil pays the Federal Government an ad valorem royalty of 8%.
- (e) "20% of the profits of Sobramil are invested in projects located in Mato Grosso and approved by the Federal Government.
- (f) "The lease to Sobramil according it the right to ship ore will not exceed 22 years in duration.
- (g) "Sobramil's rights to obtain a lease will extend for 6 months only and it may be obtained during the 6 months period only if Sobramil shall have first concluded arrangements with Eximbank, G. S. A. and Meridional, all in form satisfactory to the Federal Government.

(Note - The implications seem to be that the Eximbank, G.S. A. and Meridional agreements should be drawn in the form of the present drafts with only the changes dictated by the Sub-committee, thus there would seem to be doubt whether the Brazilian Federal Government would approve the Eximbank arrangement if the loan were for less than \$30,000,000 or the G. S. A. arrangement if it were for less than 3,000,000 tons.)

- (h) "Sobramil will construct and put into operation the necessary mine equipment, transport facilities, loading docks and ocean terminal necessary to mine and ship up to 500,000 tons of ore per year.

(Note - This is another indication that the loan must be for at least \$30,000,000. There is another indication in that Report G.M. 2221 is endorsed and it specifically provides that North America manganese ore needs will be guaranteed only if a loan of \$30,000,000 is forthcoming.)

- (i) "At the termination of the mining lease, all equipment of Sobramil, including that referred to in (h) above, will become the property of the Federal Government.
- (j) "15% of Sobramil's output is reserved for disposition in accordance with the Federal Government's instructions.
- (k) "The remaining 85%, Sobramil can dispose of by ration among its stockholders in proportion to their holdings and by direct sale to foreign and domestic consumers.

(Note - This results in a maximum of 41% being available to Meridional at cost plus 10% as sales in export must be made at export price approved by the Federal Government.)

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- (l) "The partnership does not have a technical director other than a Brazilian with authority which would deprive Brazilians of effective control.
- (m) "Eximbank is not placed in a position making possible a foreclosure which would result in majority ownership passing out of Brazilian hands.
- (n) "The State of Mato Grosso receives a royalty of 3-1% of the price or ore F.O.B. South Atlantic Port of Embarkation or Cr\$15,00/ton whichever is greater.
- (o) "A minimum of 50,000 tons per year must be mined and shipped and a maximum of 500,000 tons/year (except for special permission of the Federal Government) may be mined and shipped.
- (p) "A minimum royalty equivalent to the royalty payable on 50,000 tons must be paid annually to the State.
- (q) "Future sales of ore in the ground as well as ore in the ground already sold under the original agreement between Sobramil and the State are made subject to an advance equivalent to 30% of the royalty in effect at the time of purchase (e.g. 3 cruzeiros per ton on previous sales and 4.5 cruzeiros per ton on future sales.) These advances will be credited toward amounts due at time of shipment.

(Note - The intention seems to be that the larger royalty of 3.5% or 15 cruzeiros per ton, whichever is greater, will be due at the time of shipment even on ore which was bought when the 10 cruzeiro royalty was in effect.)

- (r) "The lease contract between the State and Sobramil is non-transferable by Sobramil and is cancellable by the State for uncorrected default of Sobramil.

15. "Since the Governor of Mato Grosso approached Dr. Chamma with a request that the Sobramil-Mato Grosso Agreement be revised in favor of the State Government to accord a greater return to the State, Dr. Chamma has been urging Merid to participate in a re-drafting of the Agreement. We have contended it is up to the Brazilian Federal and State Governments and Sobramil to demonstrate their good faith by carrying through with the purchases already made in accordance with the original terms. We have also insisted that a detailed plan should be worked out and agreed to which will permit Merid to remove the tonnages of ore in the ground which it has already purchased.

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15. (cont'd)

"We have insisted that this arrangement which will permit us to enjoy the purchases which we have already made in good faith must be worked out before we can be expected to make any further purchases of ore in the ground or to enter into any larger undertaking to supply the United States Government with ore for the stockpile.

16. "Various negotiations with Dr. Chamma have been conducted along the lines outlined in the preceding paragraph during the time that the Brazilian Government has been deliberating the reply which it would give to the Eximbank consultation. These negotiations have been inconclusive primarily because of Dr. Chamma's fear that the actions taken by the Brazilian Government have deprived him of the ability to carry out his original commitments.

17. "It is understood that the Inter-ministerial Committee considers its report and recommendations which were approved by President Vargas as being really a guide to the type of arrangement which the Federal Government would prefer to see reached among the parties. Apparently it is the hope of the Brazilian Federal Government that the Eximbank, the GSA, the State of Mato Grosso, Merid and Sobramil will get together and will agree among themselves as to what extent they feel they can comply with the views of the Federal Government. When they have informed the Federal Government to this effect, the Fed Gov will again consider to what extent it can modify its views to conform with the unanimous views of the five interested parties.

18. "No progress toward a united position of the five interested parties has been possible for many reasons. First of all, the Brazilian Fed Gov has never supplied the parties with any official notice of its decision or of the official documentation elaborating on its decision. Both Sobramil and Merid have made application for such official documentation but several months have passed and no action has been forthcoming. Also the views of the five interested parties and the interests which they represent are so divergent that a five-party negotiations would be practically impossible. Further, the action taken by the Brazilian Fed Gov completely disregards the problem of Merid in regard to the ore in the ground which it has already purchased and which is entirely separate and distinct from the question of the Eximbank loan and the General Services Administration contract. As the recommendations of the Fed Gov do not deal with this matter, it is difficult, if not impossible, for Merid to enter into any negotiations until the question of Merid's rights under the ore which it has already purchased can in some way be injected into these deliberations.

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18. (cont'd)  
"Still a further reason why no five-party negotiations can be undertaken is that the Brazilian Fed Gov recommendations appear to presuppose that a \$30,000,000 loan will be made to finance the supplying of three million tons to US stockpile. Such a viewpoint is not realistic as the needs of the stockpile and its ability to contract have considerably altered since the Eximbank consultation was originally made.
19. "Concurrently with our attempts to conclude arrangements for the development at Urucum, Bethlehem Steel Company has been progressing plans to assist in the development of another manganese ore project in Brazil. The deposit in which Bethlehem is interested is located in the Federal Territory of Amapa. The rights to the exploitation of this deposit were granted to a private Brazilian company entitled Industria e Comercio de Minerios S. A., usually referred to as Icomi. It is believed that the arrangement between Icomi and Bethlehem provides that Bethlehem should have a 49% ownership and Icomi should have a 51% interest. The technical director is to be selected by the 49% interest.
20. "An agreement between Icomi and the US Government represented by the DMPA provides, to the best of our knowledge, as follows:-
- A. "DMPA has actually purchased a total of 400,000 long dry tons for delivery in 1956 and 1957, price to be at 90 per cent of the average current price as published in the US, c.i.f. USA port, for manganese, during a period immediately preceding delivery of the ore, presumably the quarter or perhaps the month preceding, but never less than the price which would be payable for ore falling in the category described in paragraphed numbered C. hereof and delivered in the same calendar quarter.
  - B. "DMPA also has an option to purchase up to 30 per cent of the exported production of the company on the same price basis as that described in paragraph A.
  - C. "The seller has the option to deliver to DMPA any tonnage it desires up to an amount which during the life of the contract, together with all other tonnage exported by the seller, totals 5,500,000 tons at a price of 65 cents per unit of manganese, c.i.f. USA port, subject to escalation upward or downward based upon official published indices.
  - D. "There is a provision that a minimum of 70 per cent of the tonnage exported will be delivered in the US.
  - E. "All prices are subject to stated premiums and penalties according to analysis of the ore in question.

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- F. "The loan agreement with the Export-Import Bank provides up to \$67,500,000. With this money the mine must be developed, a railroad from the mine to port constructed, and a dock at port constructed.
- G. "The term of the purchase contract is to June 30, 1962, or until the Eximbank loan is repaid, whichever is earlier.
21. "It is our understanding that this agreement has the approval of the Brazilian Government as the DMPA-Icomi agreement was initialed by the Brazilian Minister of Finance when he was in the US. Without more complete documentation available, it is immediately apparent that the terms imposed by the Brazilian Fed Gov upon Bethlehem and Icomi are much less burdensome than those proposed in the Brazilian Government's answer to the Eximbank's consultation regarding Urucum.
22. "US Steel Corporation's future course of action in regard to Urucum must be based upon the position that we cannot and will not undertake to commit large sums of money and encourage the US Government to commit large sums of money to develop the deposit for supply of ore to the US Government stockpile unless and until the Brazilian Fed Gov, the government of the State of Mato Grosso and Sobramil have demonstrated their good faith in carrying out commitments freely arrived at. An adequate demonstration of this good faith must as a minimum provide a means for US Steel Corp to extract the ore which it has already purchased in the ground, and this must be made possible without imposition of additional payments not contemplated at the time the purchase was agreed upon, at least unless additional consideration is accorded for such additional payments. The US Steel Corp presently has invested in the Urucum project, principally for purchase of ore in the ground, the sum of \$1,500,000. This is composed of the following amounts:
- \$900,000 as advance royalty to Sobramil;
  - \$500,000 advance royalty to the State of Mato Grosso; and
  - \$100,000 in exploratory drilling.
23. "No demand for return of these advances has been made to date. We continue to be interested in this project and would like to develop it as a replacement for Lafaiete as a long-range source of manganese ore. This cannot be done if conditions are imposed upon us which increase our costs over those of Amapa, which is more favorably located as regards freight costs, nor can it be accomplished if such investments as we are required to make are to be confiscated within a relatively short period of time, nor can we be expected to advance any large sums of money or to encourage others to advance large sums of money unless we have been shown an earnest desire on the part of the Brazilian authorities to honor their commitments and to perform their obligations in good faith.